THOMAS MILLER INVESTMENT

Re-thinking Cash ISAs – Making the most of tax-free ISA allowances

The days of a decent risk-free return from cash deposits are a distant memory and, with inflation outstripping interest rates, it seems using a tax-free wrapper to hold cash needs to be reviewed.

The Bank of England has once again indicated that it has no plans to raise interest rates and with the annual ISA allowance rising to £20,000 per person on 6 April 2017 (from £15,240), it's important that clients make the most of these tax-efficient investments.

We are in a low growth/low return environment, where interest rates for cash ISAs are equivalent to those for basic savings accounts. In such times it is wise to maximise the tax efficiency of investment returns to help increase the bottom line. Given that ISAs are free from Income Tax and Capital Gains Tax (CGT), it makes sense to use an ISA to invest into assets (other than cash) which have the potential to outstrip inflation over the medium to long term.

Clients with cash ISAs should potentially be re-thinking their strategy and instead consider holding a diversified spread of assets within a Stocks and Shares ISA. Remember that clients can also transfer money from existing cash ISAs to a Stocks and Shares ISA without losing the tax benefits.

The Government has continued to cut tax breaks on pensions, whilst enhancing tax breaks on ISAs. Simultaneously, they have tried to encourage long term investment in ISAs by reducing pension allowances and increasing the amount that can be saved in an ISA. Opting for cash will make little use of the tax benefits available.

Tax Benefits of a Stocks & Shares ISA:

- **No CGT on profits** – outside the ISA wrapper, any profit made above the annual CGT allowance would be subject to tax at 18% for basic-rate taxpayers and 28% for higher rate and additional rate tax payers.
- **No tax on interest earned from corporate bonds** – outside the ISA wrapper, personal savings allowance rules are enforced, meaning basic-rate taxpayers can earn £1,000 interest tax-free, higher-rate taxpayers £500 and additional rate taxpayers get nothing.
- **No tax on dividend income** – outside the ISA wrapper, there is a £5,000 dividend income allowance and above that, dividends received will be taxed at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers and 38.1% for additional-rate taxpayers.

It's imperative to consider the risk involved with investing, but, making the most of the benefits of any tax-incentivised investment vehicle comes with good financial planning advice and increasingly so in a world where the Government continues to make changes to tax legislation.